

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of

THE APPLICATION OF HARDIN COUNTY WATER)
DISTRICT NO. 1, A WATER DISTRICT ORGANIZED)
PURSUANT TO CHAPTER 74 OF THE KENTUCKY)
REVISED STATUTES, OF HARDIN COUNTY,) CASE NO. 8173
KENTUCKY, FOR APPROVAL OF THE INCREASED)
WATER RATES TO BE CHARGED BY THE DISTRICT)
TO CUSTOMERS OF THE DISTRICT)

O R D E R

On September 21, 1981, the Public Service Commission issued an Order granting Hardin County Water District No. 1 ("Hardin") increased annual operating revenues of \$177,621. On October 8, 1981, Hardin County filed an application for rehearing on the grounds (1) that the approved rates provide no leeway or margin above the required debt service coverage if the proposed bonds are sold at 12% as originally projected; (2) that the bonds cannot at the present time be sold at an interest rate of 12% and that the rate could be as high as 15%; and (3) that the Commission should grant rates to generate revenues sufficient to meet the coverage requirements at an interest rate of 15%.

On October 23, 1981, Citizens for Commercial Water Meters of Hardin County Water District No. 1, by counsel, filed a response to the petition for rehearing.

The Commission's review of the petition has disclosed that Hardin neither raised questions nor offered additional proof that

were not fully considered by the Commission with regard to the debt service coverage. Therefore, the Commission concludes that Hardin's petition for rehearing on this issue should be denied.

The Commission's review of the record and the petition for rehearing also disclosed that the interest rate of 12% approved and included in rates was the rate requested by Hardin. The Commission recognizes that the bonds may be issued at an interest rate which is higher than the 12% approved in its Order. However, the cost rate at which these bonds will ultimately be issued is uncertain. The Commission does not want to impede in any way the sale of these bonds when these funds are required by Hardin. Given the current economic conditions (forecasts of a recession, a bigger than anticipated federal deficit, etc.), any attempt to speculate on the final interest rate for these bonds would be an exercise in futility.

The Commission realizes that Hardin is now and will in the future be required to meet the parity requirements of its outstanding bonds. Therefore, the Commission concludes that Hardin should be granted authority to issue these bonds at an interest rate up to 15% and that if the bonds are sold at an interest rate which exceeds the 12% rate previously authorized, rates should be increased to provide the coverage necessary to meet the parity requirements of these bonds. The Commission further concludes that Hardin should advise the Commission of the interest rate required to sell these bonds prior to the consummation of the negotiations.

Summary

Based on the record in this case, Hardin's petition for rehearing, and the response, the Commission finds that:

(1) Hardin's request for a rehearing on the need for a margin over and above the margin allowed for debt service coverage should be denied.

(2) Hardin's petition for reconsideration of the interest rate for the pending bond issue should be granted to the extent that an interest rate up to 15% should be authorized and that Hardin should be allowed to increase rates to meet the coverage requirements.

(3) The exact increase required cannot be determined until the date the bonds are sold.

(4) Hardin should provide the Commission with a detailed explanation of the sources of financing considered by Hardin in arriving at its decision to issue bonds.

IT IS THEREFORE ORDERED that Hardin's petition for reconsideration of the margin approved in the September 21, 1981, Order be and hereby is denied.

IT IS FURTHER ORDERED that the final determination of the interest rate for bonds authorized in the September 21, 1981, Order shall be made on the date these bonds are offered for sale by Hardin.

IT IS FURTHER ORDERED that Hardin shall notify the Commission of the actual interest rate prior to final consummation of negotiations.

IT IS FURTHER ORDERED that Hardin be and hereby is authorized to increase its rates to maintain coverage requirements up to a maximum of 15% and that a schedule of rates providing the required coverage shall be issued upon consummation of the sale.

IT IS FURTHER ORDERED that Hardin shall provide the Commission with a detailed explanation of the alternate sources of financing considered by Hardin in arriving at its decision to issue bonds.

Done at Frankfort, Kentucky, this 28th day of October, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Voth
Chairman

Katherine Gaudale
Vice Chairman

John C. Carrigan
Commissioner

ATTEST:

Secretary